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Electronic Data Systems Corporation

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EDS

The following profile outlines the products, services and support offered by EDS to its clients for outsourcing services.

1. Description of Principal Business

EDS, founded in 1962, is a world leader in the application of information technology (IT), providing information processing, systems management, systems integration, systems development, consulting, software products and process management services to customers worldwide. EDS serves public and private organizations in banking and finance, communications, energy, government, health care, insurance, manufacturing, retail and transportation.

2. Organization

EDS is organized to support individual industries and the business needs of its customers. The company's current organization structure is summarized in Exhibit A.

The organization features four components that are summarized in Exhibit B and include the following:

- Industry—Strategic Business Units (SBUs) organized by industry.

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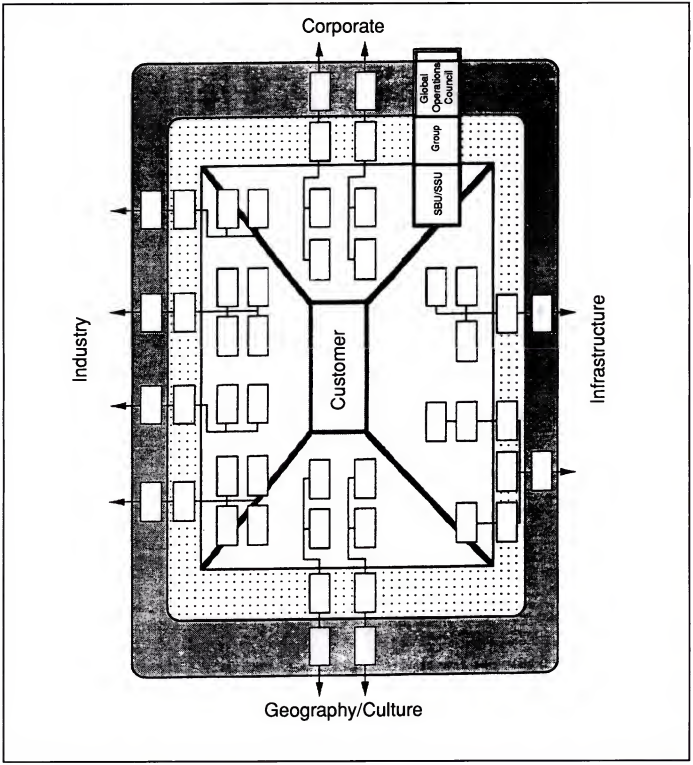
Exhibit A

EDS Organization—Concept



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- Geography/Culture—SBUs organized along geographic lines.

- Infrastructure—Strategic Support Units (SSUs), such as Information Processing Center (IPC) Operations, Field Services and Applied Engineering, as well as additional support units in areas such as employee development, purchasing, marketing, planning, management consulting and Centers of Service (COS). COS provides specialized products and services horizontally to multiple SBUs.

  The COS program, introduced in 1992, is a new dimension to the way EDS pursues business. There are currently six Centers of Service as follows:

  - Customer Services Technologies—creates and operates customer assistance centers for GM, Rockwell and other customers, providing everything from computer systems to equipment, facilities and assistance center staff.

  - Document Processing Services—focuses on integrating business processes, people and technology to automate paper-intensive processes such as claims processing and customer correspondence.

  - Performance Services—provides a range of training services, from standard classes to custom-designed formats.

  - Electronic Commerce—includes two operating units: Electronic Financial and Information Transaction (EFIT) Services and Card Processing Services (CPS), processing transactions initiated through the use of ATM/debit cards, MasterCard, VISA, JCB and private label cards.

  - Unigraphics—represents CAD/CAM product line. There are currently more than 20,000 seats of Unigraphics installed worldwide. Unigraphics' distribution channels extend across multiple SBU areas.

  - Technical Products Division (TPD)—a desktop system services provider and one of the top 10 microcomputer resellers in the U.S. Equipment from all major vendors are offered, including Apple, Compaq, DEC, Dell and IBM. Services include hardware, software, education and training, consulting, support services, client/server and LAN solutions, management services, systems integration, installation and maintenance, as well as help desk solutions.

- Corporate—Administrative support includes: Audit, Tax, Legal, Treasury, Controller and Public Affairs.

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Exhibit B

Electronic Data Systems Corporation
Organization Components

Component	Group	Unit(s)
Industry	General Motors	Planning and Integration; GM Europe; Advanced Technology; Powertrain and Delco Electronics; North American Vehicle Sales and Marketing; Dealer Systems; Worldwide Components; Operations and Staffs Support; Allison Transmission, AGT, and Electro-motive: N.A. Passenger Car & Truck Platforms; Regional Support Centers
	Manufacturing	Manufacturing; Suppliers & Engineering Services; High Technology Manufacturing & Distribution
	Financial	Large Financial Institutions; Financial Services GMAC
	Transportation	Air Transportation Travel Services
	Communications	Communications
	Energy	Energy
	Insurance	Health; Property & Casualty, Life
Geography/Culture Americas	U.S.	Government Services; Government—Military; Government—State and Local; Commercial Services
	Non-U.S	Canada; Mexico; South and Central America
Geography/Culture Europe	Europe-Central	Germany
	Europe-North	U.K.; Benelux and Scandinavia
	Europe-South	France; Spain; Italy
Geography/Culture Asia/Pacific	Japan	Japan
	Asia/Pacific	Korea; Australia and New Zealand; Taiwan; Hong Kong; China; Singapore

Source: EDS

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Exhibit B (Cont.)

Electronic Data Systems Corporation
Organization Components

Component	Group	Unit(s)
Infrastructure	Administration	Chief Information Office; Employee Administration; Purchasing; Real Estate
	Business Development	Americas; Asia/Pacific and Japan; Europe
	Centers of Service	Customer Services Technologies- Business Process Systems & Services Human Performance Services Electronic Commerce Unigraphics Technical Products Division
	Management Consulting Services (MCS)	Business Services Consulting; Consulting Practice Centers; Global Support; Industries; MCS Technical Architecture
	Customer Business Services	Account Services; Field Services
	Employee Development	Compensation; Industry Development; Leadership Development; Quality; Staffing; Technical Development; Global Diversity
	Infrastructure Engineering	Customer Engineering; Platform Engineering; Client/Server
	Market Development	Marketing; Marketing Support; Sales Leadership; Strategic Planning
	Operating Services	Operations; Operations—Europe
	Research & Development	
	Technology Architecture	Systems & Methods; Business Applications for Technology Computing & Communications Architecture
Corporate	Audit; Communications & Public Affairs; Controller; Government Affairs; Legal; Tax; Treasurer	

Source: EDS

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There are four levels of corporate governance as follows:

- Unit—The SBU and SSU levels are the most significant because they are closest to the customer. SBU functions include marketing and business development, sales and sales support, systems engineering, products and services, business operations and financial responsibilities. SBUs are given incentives to work with other SBUs and SSUs to deliver the resources, products and services that best meet customers' needs.

- Group—Group Executives develop five-year business plans, coordinate marketing and selling functions and monitor and enforce teamwork, quality and customer satisfaction. Group Executives are responsible for developing global strategy within their areas or region.

- Global Operations Council—The most senior executives in global industries have responsibility for market planning and direction. The Council will link business strategies among industry SBUs and geography/culture SBUs.

- Leadership Council—This is the company's policy-setting body.

3. Scope of Current Outsourcing - Related Activities

EDS defines its various services as follows:

- Systems Management (Information Systems Outsourcing)—Involves the ongoing management and operation of information technology components (computing, communications, applications, and/or data). It may involve resources ranging from specialized systems applications to the customer's entire information technology function, including facilities and personnel.

- Systems Integration—EDS designs, implements and installs the appropriate combination of hardware and software integrated into a total system designed to fulfill the customer's processing and communications requirements.

- Systems Development (Professional Services)—EDS provides system creation, migration and improvements to meet customers' specific business needs for functional specifications and applications.

- Consulting (Professional Services)—These services include the development, refinement and coordination of strategies to support a client's business direction, impact business performance and improve operating results. Consulting is offered for business planning, business process design, technology strategy and planning and change management.

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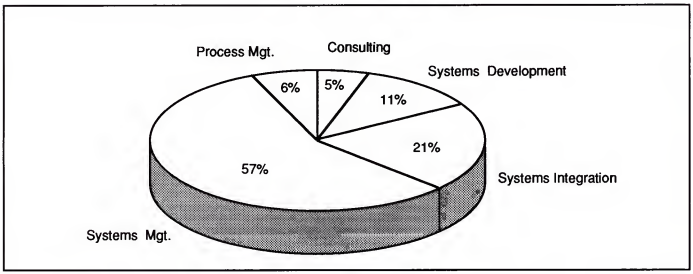
- Process Management (Business Operations Outsourcing)—EDS also provides ongoing responsibility for the direction and operation of one or more business processes within a client's organization. This includes resources (acquisition, deployment and use of people, facilities, technology, support functions and supplies), integration (linking business processes) and performance (accountability of performance measures).

Exhibit C shows the distribution of 1993 EDS global revenue among these service areas.

Exhibit C

EDS 1993 Global Revenue



Source: EDS

4. Financial

Fiscal Year End: 12/31/93
1993 Total Company Revenue: $8,561.8 million ($3.32 billion, GM-related)
1993 Worldwide Information Services Revenue: $8,507.3 million (non -GM: $5,183.6 million)
1993 Worldwide Outsourcing Revenue: $5,355.1 million (non-GM: $3,263.0 million)
1993 U.S. Outsourcing Revenue: $4137.4 million (non-GM: $2,520.8 million)

EDS's total 1993 revenue reached $8.6 billion, a 4% increase over 1992 revenue of $8.2 billion. Net income rose 14%, from $635.5 million in 1992 to $724.0 million in 1993. International revenue grew 2% to $1,928.3 million. Non-GM revenue, however, grew 8% for global and U.S. and 6% for international operations. EDS estimates that its current backlog is $29.0 billion and new orders for 1994 are more than $7.0 billion. Exhibit D reflects INPUT's estimate of EDS's U.S. 1993 non-GM revenue by outsourcing service category. Exhibit E shows the distribution of EDS's U.S. non-GM revenue by industry.

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Exhibit D

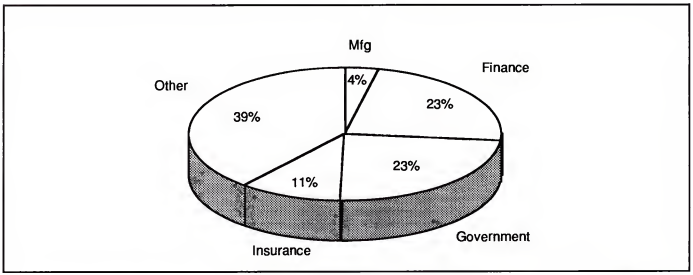
1993 Non-GM, U.S. Outsourcing Revenue

	1993 Revenue ($M)	Growth '92 - '93 (%)	Projected Growth '93 - '94 (%)
Total Outsourcing	2,520.76	15	20
Platform Ops.	680.69	1	5
Application Ops.	907.58	20	24
Desktop Services	226.90	27	30
Network Mgt.	340.34	23	27
Application Mgt.	113.45	14	22
Business Ops.	251.80	18	25

Source: INPUT

Exhibit E

1993 Non-GM, U.S.
Outsourcing Revenue Distribution



Source: INPUT

5. Outsourcing Strategy

EDS is vertically focused in its pursuit of all business. Its SBU organization provides an industry specific focus to marketing and delivery of service. Outsourcing is the foundation of EDSs services, accounting for more than 60% of its revenue. EDS has been providing some version of outsourcing since its founding

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in 1962. Its experience and technological resources include: EDSNET—one of the largest privately owned network in the world, 14 Information Processing Centers (IPC), 81 data center mainframe sites (industry or customer specific) and 70,000 people throughout the world. EDS is endeavoring to use its experience in outsourcing and its technological infrastructure as a foundation for growing beyond traditional IT to enter into management consulting and business operations (process management). EDS believes its vertical focus brings business knowledge as well as technical skill to its clients. This combination of skills will help EDS move from the customer's data center to its business operation function.

During the last five years, EDS has been positioning itself as its customer's partner. It has constructed contracts that share the risk and reward with the customer for the segment of its business effected by EDS services. Few customers have been willing to exercise this option. This is due to an inability to agree on metrics to use as a basis for EDS pricing. Nevertheless, EDS has used this innovative approach in marketing as well as crafting outsourcing services that incorporate this feature. In 1993, EDS introduced the CoSourcing concept in which contracts are constructed to share the risk and reward of the customer's business performance and translate this arrangement into an EDS compensation plan. One of the earliest examples of CoSourcing is the Chicago Parking Authority contract, where EDS's compensation is dependent, in part, on the collection of traffic fines. This contract and service has been used as a model for similar offerings in Europe.

In October 1992, EDS established its Centers of Service (COS). Its charter is to establish new businesses that cross SBU lines. One component of the COS is a service development function that establishes and test markets a service business for a limited time (approximately two years) with the purpose of either growing the service to become a standalone business, incorporating the service into an existing COS business offering, or discontinuing the business. Although none of the current businesses have completed its COS life cycle, EDS has established successful businesses in document processing, electronic commerce, customer services, desktop products and services, logistics and product design. COS is a strategy that creates future competitive advantages for EDS.

6. Competitive Position

EDS is the leading outsourcing service vendor. Until 1991, EDS had the commercial outsourcing market to itself. Smaller, niche vendors were in the market but clearly EDS was the "top of mind" vendor for outsourcing. In fact, one of EDS's challenges was to be viewed as more than an outsourcer by the marketplace. In the last three years the competitive environment has changed. IBM- SSC and Computer Science Corporation have attacked this market

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with vigor. Until EDS won the Xerox outsourcing contract in March 1994, the last 18 months of U.S. mega contract awards (more than $200 million) were dominated by ISSC (e.g., McDonnell Douglas - $3 billion, Equifax - $650 million, Southern Pacific - $414 million and Amtrak $500 million). During this same period, EDS has had great success in Europe with its three largest 1993 contracts coming from that region, each being in the $1 billion range.

Basic data-center outsourcing is coming under severe pricing pressures. This a cost-based service with many competitors on a regional, national and global basis. Price competition leads to margin pressures and in some cases, unprofitable contracts. This segment is also the slowest growing portion of the outsourcing market. Why continue to pursue this business? Pursuing basic data center outsourcing contracts provides an entry point for follow-on outsourcing activities in the value-based outsourcing segments of network management, desktop services and business operations. EDS is attempting to include these value-based components in all outsourcing contracts.

The competitive battle in the future will be fought in vertical markets and against specialty firms such as Systematics in banking and First Data Corp in health care. In addition, there will be competitive intrusion from Andersen Consulting and to a lesser degree, from Coopers & Lybrand as they accelerate their entry into the business operations outsourcing market. Finally, there will be technological competitors in network outsourcing (AT&T and MCI) client/server services (HP and SHL Systemhouse). This expanded playing field presents opportunities for EDS as the market looks at a broader, more strategic definition of outsourcing. EDS is still the leader of a now fragmented outsourcing market.

7. Recent Key Contracts

- Xerox—This major contract is scheduled to be signed in May 1994. It is estimated to be in the $3 billion range for an eight- to ten-year contract. The scope of the contract includes EDS managing Xerox's domestic and international data centers, networks, some of Xerox's applications and providing desktop services, worldwide.

- U.K. Inland Revenue—A $1.5 billion, ten-year contract to outsource all of Inland Revenue Information Technology Office (ITO). The contract commenced in April 1994, and includes the transfer of 2,000 Inland Revenue information technology operations and development employees to EDS. This is purportedly the largest outsourcing contract ever announced in Europe..

- Kooperative Forbundet (KF Group)—$1.1 billion, ten-year contract with the Swedish cooperative group of 120 retail businesses outsourcing its IT support to EDS.

- Southland Corporation—A ten-year agreement for EDS to deploy and operate (i.e. network, processing, administration and enhancement) 4,000 ATMs in 7-Eleven stores in selected markets.

- Nielsen Marketing Research North America—$400 million, ten-year

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outsourcing contract to assume responsibility for a large segment of Neilsen's IT function.

- Time Life U.K.—EDS is the company's IT services provider and will assume responsibility for fulfillment services for some of Time Life U.K.'s book and music direct-marketing activities.
- Blue Cross & Blue Shield of Maryland—EDS assumes operation of its LifeCard Division (electronics claims processing)
- USTravel—A $800 million, ten-year agreement for EDS to manage USTravel's data and voice networks, migrate and consolidate hardware and software as well as provide software and product development for the $2.4 billion travel management company. This contract was a result of an EDS re-engineering contract.

Exhibit F identifies the outsourcing functions included in the above contracts.

Exhibit F

EDS Key 1993 Contracts Outsourcing Scope

Contract	Infrastructure (Platform)	Applications	Network	Desktop	Bus Ops
Xerox	X	Maintenance	X	X	
UK Inland Revenue	X	X			
Kooperative Forbundet KF Group)	X	X	X	X	X
Southland Corporation			X	X	
Nielsen Marketing Research	X				X
Time Life U.K					X
Blue Cross & Blue Shield of Maryland	X		X		
USTravel	Transitional	X	X	X	X

Source: INPUT

8. INPUT Assessment

In many ways EDS is synonymous with outsourcing. Its first service was facilities management and its success grew from that foundation. But EDS's image of the pre-eminent outsourcer has some excess baggage. It carries with it an image of a mainframe-oriented cadre of technologists who take over computer operations for

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companies that view information technology as a necessary evil. They are also viewed as being driven to convert all of its client's systems to EDS systems that run on EDS facilities, so that EDS can garner economies of scale, whereby, the customer is "locked in" to EDS. Since EDS has the image of being mainframe operation experts, it is not perceived as having strengths in the desktop/ client/server environment.

These negative images are not new but the stigma still exists. EDS is one of the few market driven, information technology service companies in the world. It has very strong marketing and organizational support. It has the financial ability to participate in the mega outsourcing contracts and has the industry knowledge in selected sectors to be a customer's business process manager.

EDS's capabilities must transcend its image. EDS has stated that it wants to become business partners with its clients, linking the entire suite of information technology services with business process-related skills while being compensated by sharing the business risk and reward with its clients (i.e. CoSourcing). This migration from the back office of data center operations to the forefront of business strategic planning is a large leap. The competition is converging at the customer's business unit with Business Re-engineering being the current strategy to penetrate the customer organization.

EDS will be facing a varied set of competitors ranging from traditional rivals, ISSC and CSC, to a large segment of the consulting industry—Andersen Consulting, Coopers & Lybrand, and also Mc Kinsey and Boston Consulting.

EDS has carved a broad swath in its market. Its technological infrastructure and skills are outstanding—project and line management are excellent. business process skills are good in selected areas, service development capability is outstanding as is its marketing.

The weak link is sales.

The sales force is well positioned to sell traditional data center outsourcing and related services. However, the consultative selling ability and process knowledge required to sell business function specific outsourcing is limited. If EDS wants to continue expanding its reach up the value chain to focus on the business process or the systems that support the business process (as opposed to providing an information technology utility), it must enhance its sales capabilities. Its growing consulting organization may be one source for these skills but this is not enough. EDS needs to look outside its organization for former executives who managed the business processes EDS wishes to perform (i.e. "process owners"). This is the investment required to elevate the sales organization and EDS to the next level.

This profile is issued as part of INPUT's Outsourcing Information Systems Program—U.S.
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